

### **Income Tax Model #3**

#### **Phased-In Three Tiered Income Tax Model**

1. **Earned Income Tax Credit.** For tax years commencing on or after January 1, 2004, provide a refundable earned income tax credit reimbursable at 15% of the federal rate, increasing 5% per year to 30% on the same schedule as the personal income tax rate is phased down from 7.75% to 6.5%. The cost of increasing the credit to 15% shall be paid for through the sales tax broadening set forth below. The remaining increases in the credit shall be provided for annually in the budget thereafter. Cost of increase to %15: \$17.5 M.
2. **Rates.** For the tax years commencing on or after January 1, 2004, reduce top rate from 8.5% to 7.75% for income in excess of \$33,400. Further drop the top rate as follows: 06 tax year - 7.25%, 07 tax year – 6.75%, 08 tax year - 6.5%. As the top rate drops from 7% to 6.5% also drop the rate for income from \$16,700 to \$33,400 to 6.5%. The current 2% and 4.5% rates remain unchanged. The cost of the step-down to 7.75% shall be paid for through sales tax broadening set forth below. The remaining step-downs shall be provided for annually in the budget thereafter. No conformity to personal exemption. Cost of reduction to 7.75%: \$60 M.